

## ISSUES OF IMPROVING ANALYSIS OF INDIRECT TAXES

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### ABSTRACT

*This article is devoted to the research the value Added Tax, one of indirect taxes which has a significant share in formulating revenue part of the budget. In addition, the article studies the impact of the VAT on the financial position of the company. Taking into consideration the results of the research the article represents conclusion and scientifically proved recommendations.*

**KEYWORDS:** Indirect Taxes, Value Added Tax, Direct Tax, Tax Rate, Market Price for One Item, Cost of Sales of the Overall Production, Quantity of Goods Produced, Profit of Company, Tax Burden

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### INTRODUCTION

In modern economic theories taxes are the main financial source for regulating economy as well as social, economic and political activities of the government. Taxes represent the method of formulating the state budget and taxation can act as the factor impacting the development of this or that process.

In foreign practice according to their economic nature, taxes are divided into direct and indirect taxes.

Direct taxes are charged directly from the object of taxation, so the owner of the income of the property can act as the taxpayer of the direct taxes. Indirect taxes are the taxes which are added to the price of goods and services and the taxpayer of indirect taxes is a final consumer of goods and services on which shoulders the tax burden falls. In this connection companies add indirect taxes to the price of manufactured goods or services and then transfer the amount of taxes to the budget.

At present indirect taxes are widely used as the main source of the budget revenue. Economic activity of businesses, in turn, is also stimulated by direct taxes which formulate the revenue part of the state budget.

There are different approaches to the classification of taxes into direct and indirect. Russian scientist, A. Nachalov has stated that "Indirect taxes are taxes which are accrued to the price of goods and services by central and local authorities. They are not connected with the income of the taxpayer and are added as special tariffs to the price of goods and services" (A. Nachalov. 2004).

According to the opinion of English economist and statesman John Stuart Mill "If direct taxes are levied on the taxpayer himself, the tax burden of indirect taxes is shifted to the taxpayer by other persons" (A. Chernika.1996).

Former Minister of Finance of France Joseph Marie Terray has noticed that "indirect taxes are imposed gradually" (A. Chernika.1996).

Therefore we can make a conclusion that indirect taxes are added as an additional cost to the manufactured goods, accomplished works and offered services. They are obligatory indirect payments to the state budget in the form of additional costs in the structure of the turnover.

The object of indirect taxes is the value of sold goods, accomplished works and offered services. It is referred not to the income or profit received, but is connected with additional cost accrued to the value of turnover. In this case, the value of manufactured products, accomplished works and offered services should be converted into goods.

Producers of goods and services are considered legal payers of indirect taxes. However, at the end of the process, legal entities or natural persons consume those goods and services which comprise the object of indirect taxes.

Therefore, from the point of view of the enterprise, it is not so urgent to distinguish direct and indirect taxes basing on their economic and social role. Irrespective of the fact, whether they are direct taxes or indirect taxes, they are considered to the revenue source of the budget. Anyway their taxpayers will be consumers – either legal entities or natural persons.

At present times, in the structure of the budget revenue the share of the Value Added Tax (VAT) is the biggest.

The VAT was introduced in the tax practice in some countries of Western Europe in the 70s of the XX century. The reason and legal foundation for this was adoption of the special resolution on uniting all existing legal norms on charging the VAT all over the members of the European community. This resolution was adopted in 1977 and according to this document the VAT was considered the main type of indirect taxes.

According to the economic literary sources France was the first country in the world where the VAT was put into practice. In 1977 in compliance with the adopted resolution the VAT was introduced in several European countries at the simultaneously. The VAT played a big role in establishing and developing integration processes in the countries of Western Europe so this tax was named as “European” tax.

Nowadays the VAT is also very important in formulating the revenue part of the state budget in the countries – members of the European Union. The role of indirect taxes in Europe is considerably bigger that the role of these taxes in the USA, Japan, Canada and Australia. In European countries the share of indirect taxes accounts for more than 40% in the volume of the overall tax revenue and in some countries like Mexico, Turkey and Korea it makes more than 50%. In the USA, Japan, Canada and Australia this figure equals to 25-30%. The main reason for high share of indirect taxes in the structure of the tax revenue in countries – members of the European Union is generalization of tax rates in these countries and their mutual harmonization with the taxation base.

This issue has a practical significance for the Republic of Uzbekistan because the major share of goods turnover belongs to Russia, the Ukraine and the Republic of Kazakhstan. Nowadays the problem of generalizing the rates of the VAT between these countries and harmonization of the tax base hasn't been solved yet. This, in turn, can prevent development of foreign trade relations between these countries.

The VAT has been introduced in practice of the Republic of Uzbekistan since 1992. This tax was designed to replace the tax on turnover and tax on sales. The difference between the VAT and turnover tax is that the VAT is charged at each stage and a final tax burden falls on the taxpayer. However, the turnover tax was imposed only once on the overall turnover.

The main reason for implementing the VAT in Uzbekistan was the experience of the world community in imposing this kind of tax. As the practice of advanced foreign countries demonstrates, accounting of indirect taxes was developing and the VAT has turned to be the tax which does not disturb the sale of any goods and does not change finance distribution in economic activity. From the point of view of scientists, the practice of the Value Added Tax has advanced the theory of the VAT and the share of indirect taxes is considerable in the budget structure of some countries.

In Uzbekistan the rate of the VAT amounted to 30% in 1992, in 1996 it was reduced to 17%. In 1997 the rate was equal to 18% and a reduced rate of 10% was applied to some food products (flour, bread, meat, milk and dairy products). In 1999 Uzbekistan implemented 3-level VAT rate of 20, 15 and 10%. Only 3 items – export, mineral fertilizers and oil for agricultural needs and goods (services) realized by diplomats were imposed the VAT at zero rate. The VAT at 15% rate was imposed on flour, bread, meat, milk and dairy products and imported cattle and grain. Since 2000 up to now 20% rate and zero rated have been applied in Uzbekistan.

The VAT is charged at each stage of the process of purchase, production, distribution and realization of goods, rendering services from the value added. In practice if the government or the enterprise are the final consumers the total tax burden of this tax falls on the enterprise. In these cases economic entities pay the VAT not from the value added but from the overall turnover. We should always keep in mind that the value added is the overall turnover for the final consumer. Taking this fact into consideration we can conclude that the VAT is the tax imposed on the value (turnover) added in the process of production, offering services or sale because as we have mentioned above if the final consumer is a legal person, the VAT is considered to be the tax imposed on the overall turnover.

If we generalize the points of view of scientists stated above, we can make a conclusion that the VAT is an indirect tax, its burden is shifted to the taxpayers by others, and its real burden falls on the consumer at the end. We will try to analyze the impact of the amount of tax on the financial position of any enterprise and to present our opinion on this point.

## CONCLUSIONS

While analyzing the factors making an impact on the amount of taxes it is advisable to consider the impact of the amount of the VAT on financial position of the enterprise. Nowadays the higher share of the VAT in the budget revenue is the more dependents budget has. The followings can be referred to the dependent:

- Due to the non-accurate organization of the order of imposing the VAT providing tax benefits to some enterprises will result in raising the amount of the VAT paid;
- Non-compliance between advance payments of the VAT and the time of its charging from consumers.
- While analyzing the VAT we should take into account the following:
- impact of the VAT on the funds of the enterprise and results of its financial performance;

Decrease of turnover funds (advance payments for raw materials and inventories). We are going to give our opinion on the following problem basing on the analysis of the following table. (Table 1)

If we analyze the figures presented in the table no impact of the VAT during the process of production is supposed to be observed. However, the period of manufacturing lasts for 30 days and circulation of turnover funds makes an impact

on the financial position of the enterprise in the process of charging the VAT from the consumers and transferring them to the budget. This enterprise is not supposed to be the final consumer so we are proposing the following analysis:

- If we divide the cost of sales of products into a number of goods produced we will get a market price for one item.

#### “A” Enterprise

$$M_P = C_S / Q_G.$$

Where  $M_P$  = market price for one item;  $C_S$  = cost of sales of the overall production;  $Q_G$  = quantity of goods produced; so

$$M_P = 1200000 / 1500 = 800 \text{ UZS.}$$

Cost of sales for one item differs from the cost of production of one item by 100 (800 – 700) thousand UZS.

#### “B” Enterprise

$$M_P = C_S / Q_G.$$

Where  $M_P$  = market price for one item;  $C_S$  = cost of sales of the overall production;  $Q_G$  = quantity of goods produced; so

$$M_P = 1500000 / 1800 = 833.3 \text{ UZS.}$$

Cost of sales for one item differs from the cost of production of one item by 83 (833 – 750) thousand UZS.

**Table 1: Order of Analyzing Impact of the VAT on the Financial Position of the Company on the Basis of the Turnover**

	Indicators	A Enterprise	B Enterprise	Difference (+; -)
1.	Cost of the commodities and raw materials purchased, thousand UZS	800000	1000000	+200000
2.	Amount of the VAT paid, thousand UZS	160000	200000	+40000
3.	Period of production, days	30	30	-
4.	Quantity of goods produced, kg.	1500	1800	+300
5.	Money spent on one item, thousand UZS	700	750	+50
6.	Total value of production, thousand UZS	1050000	1350000	+300000
7.	Cost of sales, thousand UZS	1200000	1500000	+300000
8.	Calculated amount of the VAT, thousand UZS	240000	300000	+60000
9.	Proceeds from the sale of the product, total	1440000	1800000	+360000
10.	VAT paid to the budget, thousand UZS (8-2)	80000	100000	+20000

**Source:** Developed by the author basing on the results of the research.

- If we divide advance payment of the VAT ( $A_{VAT}$ ) into the cost of production of one item ( $C_P$ ) we will get quantity of conditionally produced goods (QCPG):

$$QCPG = A_{VAT} / C_P$$

$$\text{“A” enterprise: } QCPG = 160000 / 700 = 228.6$$

$$\text{Profit of company} = QCPG * \text{Profit} = 228.6 * 100 = 22860 \text{ thousand UZS;}$$

$$\text{“B” enterprise: } QCPG = 200000 / 750 = 266.6$$

$$\text{Profit of company} = \text{QCPG} * \text{Profit} = 266.6 * 83.3 = 22207.8 \text{ thousand UZS.}$$

So if we analyze intermediary activity of the enterprise by the VAT we can see that profit of “A” enterprise reduced by 22860 thousand UZS, “B” enterprise - by 22207.8 thousand UZS. As a conclusion we can say if the VAT didn’t exist at all profit of the enterprise would be higher.

In the result of calculations the profit of “A” enterprise accounts for 150000 thousand UZS, the loss in relation to profit occurred during the period of circulation of turnover funds due to the VAT equals to 15. 24 per cent ( $22860 / 150000 * 100$ ), while of “B” enterprise amounts to 14.8 per cent ( $22207.8 / 150000 * 100$ ).

We can observe reduction of the VAT by 15% from the profit. This process considerably impacts on financial position of the large manufacturing enterprises, companies involved in export operations, and agricultural companies.

Therefore it is rather difficult to say that the VAT paid by the enterprises doesn’t influence on the financial position of the enterprise. In the enterprises with quick turnover this influence is slightly less.

## RECOMMENDATIONS

On the other hand, while analyzing tax burden usually only really paid taxes are taken into account. In many scientific papers the VAT is considered to be an indirect tax and its burden completely falls on the final consumer.

Basing on the data stated above, we can make the following conclusions:

1. In our opinion, when the enterprise which doesn’t pay the VAT purchases fixed assets or intangible assets the VAT added to their value should be taken into account while analyzing taxes and calculating the tax burden. The reason for it is that irrespective of the terms of payment of the VAT, anyway, it is transferred to the budget.
2. In our opinion, each taxpayer feels the burden of the VAT impact.
3. It is necessary to take into account analytical information when accounting the VAT at the economic entities. We believe that timely and correct preparation of the accounting balance and income statement, accounts of the VAT will facilitate analysis of the VAT, and, as a result, timely provision the revenue part of the state budget with the taxes.

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